

INTRODUCTION

This manual entitled Financial Accounting for New Jersey Public School Districts, (The Audit Program), was revised in 1994 with the implementation of generally accepted accounting principles (GAAP) by New Jersey school districts on July 1, 1993 and is updated annually. It includes instructions for both district personnel and public school accountants regarding preparing for and performing the annual audit. The full text of The Audit Program is available on the web site <http://www.nj.gov/njded/finance/fp/audit/>.

The Comprehensive Annual Financial Report (CAFR) is the basis for the annual audit. The CAFR should include all the disclosures required under GAAP reporting. New Jersey state law and administrative code (*N.J.S.A.18A:4-14* and *N.J.A.C. 6A:23-2*) require school districts to follow GAAP. These principles are augmented with the release of statements from the Governmental Accounting Standards Board (GASB). The Outline for Comprehensive Annual Financial Report section at the end of this introduction provides additional information on the CAFR. In June 1999 GASB released Statement No. 34 (**GASB 34**) requiring significant changes in financial reporting for state, local and special purpose governments including school districts.

GASB 34 Model - Throughout this Audit Program, sections that are applicable to GASB 34 implementation are outlined and/or headed or noted **GASB 34 Model**.

GASB 34 Model

The following table specifies when districts are required implement **GASB 34**.

Districts with total annual revenues at June 30, 1999	Implement GASB 34 for fiscal year beginning
\$100 million or more (phase 1)	July 1, 2001
At least \$10 million but less than \$100 million (phase 2)	July 1, 2002
Less than \$10 million (phase 3)	July 1, 2003

This schedule requires districts with total annual revenue (governmental and enterprise funds) of \$100 million or more (for the fiscal year ending June 30, 1999) to implement GASB 34 for the fiscal year beginning July 1, 2001 and thereafter. **Districts that meet the criterion for phase 2 must implement GASB 34 financial reporting requirements for the years ending June 30, 2003 and thereafter.**

Annual revenue as defined in GASB 34 has been further clarified in the GASB Implementation Guide entitled Guide to Implementation of GASB Statement 34 on Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments and should be computed using the modified accrual (GAAP) basis rather than budgetary. The department recommended that every district consult with its auditor to determine in which year the district should implement GASB 34.

Reference Materials

Reference materials published by outside organizations are available to provide guidance in report preparation. The Government Finance Officers Association (GFOA) publishes Governmental Accounting, Auditing and Financial Reporting, commonly known as the "blue book" that is used nationwide as a reference tool for CAFR preparation. A "Supplement" was published in January 1999. A revised publication, which is updated for GASB 34, is also available through the GFOA. The American Institute of Certified Public Accountants (AICPA)

issues Checklist and Illustrative Financial Statements for State and Local Governmental Units that is a recommended reference for disclosure requirements. The Association of School Business Officials International offers a Certificate of Excellence in Financial Reporting by School Systems Program that awards certificates to those annual reports that fully meet the requirements established by GAAP and publishes a self-evaluation worksheet that may also be used as a tool in report preparation.

Responsibility/Government Auditing Standards

Governmental GAAP requires the issuance of a CAFR by every school district, along with interim financial statements to facilitate management control of financial operations. Financial statements are the responsibility of the board of education's management and are its representation of the financial position at a given point in time and the operations of the district during a period of time.

Government Auditing Standards, commonly referred to as the "Yellow Book", are applicable to organizations that expend \$300,000 or more in federal financial assistance. As required by Circular Letter 98-07-OMB, New Jersey school districts that expend \$100,000 or more in State and/or federal financial assistance in their fiscal year must also follow the Yellow Book. In January 2002, the General Accounting Office (GAO) announced revisions to the auditor independence requirements under Government Auditing Standards (3.11 et seq.). The most significant change relates to the rules associated with nonaudit and consulting services performed by those who also plan, conduct and review audit work. The department recommends that district management and auditors give careful consideration to this change in the independence standard and its impact on the auditors of the district financial statements. The effective date for the new Independence standard established in Amendment No. 3 has been extended from October 1, 2002, until January 1, 2003. The new standard will be effective for all audits for periods beginning on or after January 1, 2003. Early implementation is encouraged. The new audit standard is available on GAO's web site at <http://www.gao.gov/govaud/ybk01.htm>.

On June 25, 2003, the GAO announced the release of a new edition of the Government Auditing Standards. The new standards are applicable for audits ending after January 1, 2004. Currently, the 2003 version is available only in electronic format at the web site noted above. Also posted on the web site is a list of major changes from the 1994 version.

Submission/Reporting Package

The Department of Education requires the submission of the reports described below on or before the statutory deadline (November 5, 2003 for 2002-2003 audits):

1. The CAFR

The CAFR is the district's official annual report. It should include all of the funds and account groups of the LEA. It is organized into three primary sections: 1) an introductory section, 2) a financial section, and 3) statistical section. If a district falls under the reporting requirements of the Single Audit Act of 1984, as amended by the Single Audit Act Amendments of 1996, and/or the reporting requirements under NJOMB Treasury Circular Letter 98-07, the CAFR will also contain a single audit section. This report will strictly adhere to the Outline of the CAFR located at the end of this introduction (**pre-GASB 34 Model or GASB 34 Model depending on the district's implementation phase**). The report must include all sections, letters and exhibits in the applicable sample CAFR as they apply to each school district as well as any additional statements, schedules, and disclosures required under the circumstances of the district. The report must also include all applicable single audit opinion letters prepared by the local school district's auditor in the single audit section. Sample single audit letters are provided in Section III – Chapter 2 of The Audit Program.

Auditor's Note – Auditors should review the Abbott Addendum to the Audit Program (The Abbott Addendum) for items that specifically relate to Abbott districts. The Abbott Addendum is available on the web site <http://www.nj.gov/njded/finance/fp/audit/>.

2. The Auditor's Management Report on Administrative Findings, Financial, Compliance and Performance (AMR)

This separate report will serve as the auditor's report on management. This report must be submitted together with the CAFR to the Department of Education in order to comply with Finance Policy Bulletin 200-1. A sample Auditor's Management Report is located in Section III – Chapter 4.

3. Audit Summary Worksheet

The Audit Summary Worksheet (Audsum) diskette is to be completed by the auditor and submitted with the CAFR and the AMR to the Department of Education. The board secretary/business administrator is responsible for carefully reviewing the reports generated by the Audsum diskette and signing off on the transmittal letter as to the accuracy of the information. This information is used by the Department of Education for a variety of purposes, including downloading into the actual column of the budget software issued by the department. **It is very important that auditors and district personnel pay particular attention to the accuracy of the data to avoid having to resubmit the data.**

The procedure for submission of the CAFR and the AMR was adopted by the Department of Education to conform with the common practice for CAFR presentation followed by other school districts throughout the country. The two reports have separate, distinct purposes. The CAFR is the financial report presented to the board that is required for conformance with GAAP. The AMR is the auditor's report to the board of education of his/her findings and recommendations as a result of the audit. In accordance with OMB Circular A-133, the CAFR will also be submitted to the Federal Audit Clearinghouse as part of the reporting package along with the data collection form in cases where a federal single audit of the district is required.

USOMB Circular A-133 and NJOMB Circular Letter 98-07 require that the Schedule of Findings and Questioned Costs contain, but not be limited to, reportable conditions in internal control over major programs, material non-compliance with the provisions of laws, regulations, contracts, or grant agreements related to a major program, and known questioned costs which meet the threshold as defined in Circular A-133. *N.J.S.A.* 18A:23-9 states that the auditor "...report any error, omission, irregularity, violation of law, together with recommendations, to the board of education of each school district." Accordingly, the AMR must include **all** findings, including any items contained in the Schedule of Findings and Questioned Costs.

The statutory deadline for submission will be strictly enforced. State aid will be suspended consistent with *N.J.S.A.* 18A:55-2 for any district with an audit report, including the Audit Summary Worksheet diskette, outstanding after the November 5, 2003 submission date.

The Commissioner has statutory authority (*N.J.S.A.* 18A:23-6) to appoint auditors for districts failing to meet the statutory deadline or invoke other administrative actions. This will apply to all late audits.

OUTLINE FOR COMPREHENSIVE ANNUAL FINANCIAL REPORT

New Jersey statute (N.J.S.A.18A:4-14) requires that school districts maintain bookkeeping consistent with generally accepted accounting principles (GAAP) established by the Governmental Accounting Standards Board (GASB). The financial reporting requirements of GAAP include the issuance of a CAFR.

The financial statements are the responsibility of the board of education's management. In January 2002, the General Accounting Office (GAO) announced revisions to the auditor independence requirements under Government Auditing Standards (see the Introduction to the Audit Program). The most significant change relates to the rules associated with non audit and consulting services performed by those who also plan, conduct or review audits. The department recommends that district management and auditors give careful consideration to this change in the independence standard and its impact on the auditors of the district financial statements.

GASB 34 Model -Districts should reference the NJ Department of Education (NJDOE) website at www.state.nj.us/njded/finance/fp (click on GASB 34) for selected sample statements updated for GASB 34, including the basic financial statements and budgetary comparisons which are in excel files that can be downloaded. Information on Management Discussion and Analysis (MD&A) requirements, a crosswalk from the pre-GASB 34 statements, Frequently Asked Questions, and theoretical information is also available at that web site to assist auditors and district staff. **The illustrative statements and schedules are not intended to be boilerplate nor inclusive of every situation.**

The NJDOE, after consultation with the NJASBO GASB 34 Taskforce and the NJSCPA, is requiring that each governmental fund be treated as a major fund in the fund statements for GASB 34 presentation. Questions relating to GASB 34 implementation can be emailed to doecafr@doe.state.nj.us.

A sample pre-GASB 34 school district CAFR (including the Statistical and the Single Audit sections which have not changed under GASB 34) is available on the New Jersey Society of CPA (NJSCPA) web site www.njscpa.org/business/governmental.cfm. Sections II and III of The Audit Program include updated examples of reports, schedules, and note disclosures unique to New Jersey districts.

The format of the CAFR should adhere to the prescribed format (i.e. section) of the report and numbering of the exhibits as shown in the Outline on the following pages. Districts should use the applicable Outline for either pre-GASB 34 or GASB 34 statements. If a section or exhibit is not applicable to the school district, the notation "N/A" should be indicated against that item in the Table of Contents.

Auditor's Note – Auditors should review The Abbott Addendum for items that specifically relate to Abbott districts.

GASB 34 Model - Financial reports will be presented utilizing the same overall format as pre-GASB 34 financial reports – Introduction, Financial Statistical and Single Audit Sections.

The contents of each section of the CAFR (with GASB 34 variations enclosed in borders) are follows:

Introductory Section – This section is intended to familiarize the reader with the organizational structure of the school district, the nature and scope of the services it provides, and the specifics of its legal operating environment. It is primarily designed for the taxpayer.

GASB 34 Model - This section provides an overview of the annual report and will be similar to the pre-GASB 34 model. It is important that the letter of transmittal avoid duplicating information already provided in detail elsewhere in the CAFR (GASB 34, fn 7). Some of the minimum requirements (set by GASB 34, paragraph 11) for the contents of Management Discussion & Analysis (MD&A) are similar to the information currently presented in the letter of transmittal.

Financial Section – This section includes the independent auditor’s report, general-purpose financial statements, notes to financial statements, and combining and individual fund and account group statements and schedules. It is primarily designed for oversight and legislative bodies.

GASB 34 Model -This section includes the 1) independent auditor’s report, 2) MD&A, 3) basic financial statements including the district-wide statements (accrual basis for governmental and business-type activities), fund statements (modified accrual basis for governmental funds, accrual basis for proprietary funds and for fiduciary funds), and notes to financial statements, 4) RSI other than MD&A including budgetary comparison schedules, 5) Other Supplementary Information including combining and individual fund statements, and additional schedules. Certain combining schedules may not be applicable. For example, if a district has only two programs in the Proprietary Fund, a combining schedule would not be necessary. The School Level Schedules (D series in the GASB 34 Outline) should only be included for Abbott districts. Indicate by “N/A” when a schedule is not applicable.

Statistical Section – This section is intended to provide CAFR users with a broader and complete understanding of the school district and its financial affairs than is possible from the financial statements and supporting schedules included in the financial section. Statistical information to assist districts and auditors in preparing this section is posted on the NJDOE web site at www.state.nj.us/njded/finance/fp (click on Audit Information).

Single Audit Section – This section includes independent auditor’s reports on compliance and internal control, schedules of expenditures for federal and state grants, notes to the schedules of expenditures of federal and state grants, schedule of findings and questioned costs, and a summary schedule of prior audit findings. This information is required by OMB Circular A-133 and New Jersey OMB Circular Letter 98-07.

**OUTLINE OF CAFR
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